

Plan Limitations & Testing

IRC 402(g) Limitation: During any calendar year a participant can not defer compensation in excess of the limitation.

2001 - \$10,500
2002 - \$11,000
2003 - \$12,000
2004 - \$13,000
2005 - \$14,000
2006 - \$15,000

IRC 404 Limitation Maximum contribution the employer can deduct on corporate tax return.

2001 - 15% of total plan assets
2002 - 25% of total plan assets
2003 - 25% of total plan assets
2004 - 25% of total plan assets

IRC 415 Limitation Maximum total contributions (employee and employer) an employee can be allocated during a plan year.

2001 - \$35,000
2002 - \$40,000
2003 - \$40,000
2004 - \$41,000

Compensation Limit Amount of compensation that can be considered for contribution purposes during a plan year.

2001 - \$170,000
2002 - \$200,000
2003 - \$200,000
2004 - \$205,000

IRC 401(k) Testing Compares average deferral percentage (ADP) of highly compensated employees to ADP of non-highly compensated employees. The ADP of the highly compensated employees can not exceed 2% more than the ADP of the non-highly compensated employees. Example:

Highly Compensated ADP: 6.18%
Non-Highly Compensated ADP: 2.52%
Plus 2% of Non-Highly ADP: 4.52%

Therefore, the above example would not meet qualification testing because the non-highly compensated employees ADP + 2% are less than the ADP of the highly compensated employees ADP. The most the highly compensated employees ADP can be is 4.52%. Therefore, the plan fails qualification testing by 1.66%. This amount would normally be refunded to the highly compensated employees UNLESS the plan has a safe harbor contribution feature. Plans that have a safe harbor contribution feature automatically pass qualification testing.

IRC 401(m) Testing Compares average contribution percentage (ACP) of matching contributions of the highly compensated employees to the ACP of the non-highly compensated employees. The ACP of the highly compensated employees can not exceed 1.25 times that of the ACP of the non-highly compensated employees. Example:

Highly Compensated ACP:	2.25%
Non-Highly Compensated ACP:	0.72%
Times 1.25 of Non-Highly ACP:	0.90%

Therefore, the above example would meet qualification testing because the non-highly compensated employees ACP times 1.25 is less than the ACP of the highly compensated employees ACP. The most the highly compensated employees ACP can be is 0.90%. Therefore, the plan fails qualification testing by 1.35%. This amount would normally be refunded to the highly compensated employees UNLESS the plan has a safe harbor contribution feature. Plans that have a safe harbor contribution feature automatically pass qualification testing.

IRC 416 Testing

Otherwise known as top-heavy testing. Compares the account balance of the key employees to the total plan account balance. If the key employees account balances make up 60% or more of the total plan assets than the plan is deemed to be "top-heavy". If a plan is deemed to be top heavy, a minimum contribution of 3% of salary must be contributed to all non-key employees. Plans that have a safe harbor contribution feature automatically pass 416 testing.